

State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Division of Insurance
233 Richmond Street
Providence, RI 02903

NOTICE OF PROPOSED AMENDMENT TO REGULATION
AND NOTICE OF PUBLIC HEARING

Notice is hereby given, in accordance with R.I. Gen. Laws §§ 42-14-17 and 42-35-3, that the Department of Business Regulation ("Department") proposes to amend the following Regulations:

Insurance Regulation 27 – Life Insurance Disclosure

The proposed amendments are designed to bring the regulation into conformance with the most current version of the National Association of Insurance Commissioners Model Regulation number 580. The portions of the Model Regulation which address preneed funeral contracts have been omitted since, in Rhode Island, such contracts are governed by R.I.G.L. § 5-33.1-1 *et seq.*, rather than by the Department.

Insurance Regulation 29 – Life Insurance and Annuities Replacement

The proposed amendments are designed to bring the regulation into conformance with the most current version of the National Association of Insurance Commissioners Model Regulation number 613.

Notice is also hereby given, in accordance with R.I. Gen. Laws § 42-35-3, that the Department of Business Regulation will hold a public hearing beginning at 10:00 a.m. on January 4, 2006 in the Main Hearing Room of the Department of Business Regulation, 233 Richmond Street, Providence, Rhode Island 02903, regarding the Proposed Amended Regulation.

Copies of the Proposed Amended Regulations are on file at the Department and copies may be obtained from the Legal Division, Department of Business Regulation, 233 Richmond Street, Providence, Rhode Island 02903 during normal working hours on regular business days or by mail upon request. The Proposed Amended Regulations may also be obtained from the Department's website www.dbr.state.ri.us.

In the development of the Proposed Amended Regulations, consideration was given to overlapping approaches, overlap and duplication with other statutory and regulatory provisions and economic impact on small business and cities and towns.

All interested persons may submit their views, data or arguments regarding the Proposed Amended Regulations, including information relating to alternative

approaches, duplication or overlap with other state rules or regulations and the economic impact of the Proposed Amended Regulation on small business and/or cities and towns, orally at the public hearing or in writing, either by delivering the same in person or United States mail with postage pre-paid thereon to the Department of Business Regulation, 233 Richmond Street, Providence, Rhode Island 02903 attention Elizabeth Kelleher Dwyer, Hearing Officer or by e-mail to elizabeth_dwyer@dbi.state.ri.us

ALL WRITTEN SUBMISSION MUST BE RECEIVED NOT LATER THAN
JANUARY 4, 2006 AT 10:00 A.M.

The hearing room is accessible to the handicapped. Individuals requesting interpreter services for the hearing impaired must notify the Office of Legal Counsel at (401) 222 5400 or TDD 711 not less than ninety-six (96) hours in advance of the hearing date.

A. Michael Marques
Director, Department of Business Regulation

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PROPOSED AMENDMENTS
INSURANCE REGULATION 27

LIFE INSURANCE ~~SOLICITATION~~DISCLOSURE

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Section 1 Authority

This rule is adopted and promulgated pursuant to R.I. Gen. Laws §§ 27-29-4(1), 27-4-23 and 42-35-1(8).

Section 2 Purpose

- (A) The purpose of this Regulation is to require insurers to deliver to purchasers of life insurance, information which will improve the buyer's ability to select the most appropriate plan of life insurance for his needs; and improve the buyer's understanding of the basic features of the policy which has been purchased or which is under consideration ~~and improve the ability of the buyer to evaluate the relative costs of similar plans of life insurance.~~
- (B) This Regulation does not prohibit the use of additional material which is not in violation of this regulation or any other ~~(state)~~Rhode Island statute or regulation.

Section 3 Scope

- (A) Except ~~for the exemptions specified in Section 3(B) as hereafter exempted~~, this Regulation shall apply to any solicitation, negotiation or procurement of life

insurance occurring within this state. This Regulation shall apply to any issuer of life insurance contracts including fraternal benefit societies.

- (B) ~~Unless otherwise specifically included, t~~ This regulation shall not apply to:
1. ~~Individual and group annuity contracts; Annuities.~~
 2. ~~Credit life insurance;~~
 3. ~~Group life insurance;~~
 4. Life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the federal Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. § 1001 et seq. as amended; or
 5. Variable life insurance under which the amount or duration of the life insurance death benefits and cash values vary according to the investment experience of in accordance with unit values of investments held in a separate account.

Section 4 Definitions

For the purposes of this Regulation, the following definitions shall apply:

- (A) ~~“Buyer's Guide” —A Buyer's Guide is—~~ means the current Life Insurance Buyer's Guide adopted by the National Association of Insurance Commissioners (NAIC) a document which contains, and is limited to, the language contained in the Appendix to this regulation or language approved by Insurance Commissioner.
- (B) ~~—Cash Dividend—A Cash Dividend is the current illustrated dividend which can be applied toward payment of the gross premium.~~
- (B) “Current scale of nonguaranteed elements” means a formula or other mechanism that produces values for an illustration as if there is no change in the basis of those values after the time of illustration.
- (C) ~~—Equivalent Level Annual Dividend—The Equivalent Level Annual Dividend is calculated by applying the following steps:~~
1. ~~—Accumulate the annual cash dividends at five percent (5%) interest compounded annually to the end of the tenth (10th) and twentieth (20th) policy years.~~
 2. ~~—Divide each accumulation of Step 1 by an interest factor that converts it into one equivalent level annual amount that, if paid at the beginning of~~

~~each year, would accrue to the values in Step 1 over the respective periods stipulated in Step 1. If the period is ten (10) years, the factor is 13.207 and if the period is twenty (20) years, the factor is 34.719.~~

- ~~3. Divide the results of Step 2 by the number of thousands of the Equivalent Level Death Benefit to arrive at the Equivalent Level Annual Dividend.~~

~~(D) Equivalent Level Death Benefit—The Equivalent Level Death Benefit of a policy or term life insurance rider is an amount calculated as follows:~~

- ~~1. Accumulate the guaranteed amount payable upon death, regardless of the cause of death, at the beginning of each policy year for ten (10) and twenty (20) years at five percent (5%) interest compounded annually to the end of the tenth (10th) and twentieth (20th) policy years respectively.~~
- ~~2. Divide each accumulation of Step 1 by an interest factor that converts it into one equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in Step 1 over the respective periods stipulated in Step 1. If the period is ten (10) years, the factor is 13.207 and if the period is twenty (20) years, the factor is 34.719.~~

~~(EC) “Generic Name”—Generic Name means a short title which is descriptive of the premium and benefit patterns of a policy or a rider.~~

~~(F) Life Insurance Cost Indexes~~

- ~~1. Life Insurance Surrender Cost Index—The Life Insurance Surrender Cost Index is calculated by applying the following steps:~~
 - ~~a. Determine the guaranteed cash surrender value, if any, available at the end of the tenth (10th) and twentieth (20th) policy years.~~
 - ~~b. For participating policies, add the terminal dividend payable upon surrender, if any, to the accumulation of the annual Cash Dividends at five percent (5%) interest compounded annually to the end of the period selected and add this sum to the amount determined in step a.~~
 - ~~c. Divide the result of step b. (step a. for guaranteed cost policies) by an interest factor that converts it into an equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in step b. (step a. for guaranteed cost policies) over the respective periods stipulated in step a. If the period is ten (10) years, the factor is 13.207 and if the period is twenty (20) years, the factor is 34.719.~~

d. ~~Determine the equivalent level premium by accumulating each annual premium payable for the basic policy or rider at five percent interest (5%) compounded annually to the end of the period stipulated in step a. and dividing the result by the respective factors stated in step c. (this amount is the annual premium payable for a level premium plan).~~

e. ~~Subtract the result of step c. from step d.~~

f. ~~Divide the result of step e. by the number of thousands of the Equivalent Level Death Benefit to arrive at the Life Insurance Surrender Cost Index.~~

2. ~~Life Insurance Net Payment Cost Index. The Life Insurance Net Payment Cost Index is calculated in the same manner as the comparable Life Insurance Cost Index except that the cash surrender value and any terminal dividend are set at zero.~~

(E) “Policy data” means a display or schedule of numerical values, both guaranteed and nonguaranteed for each policy year or a series of designated policy years of the following information: illustrated annual, other periodic, and terminal dividends; premiums; death benefits; cash surrender values and endowment benefits.

(GF) “Policy Summary”: ~~For the purposes of this regulation, Policy Summary~~ means a written statement describing the elements of the policy including but not limited to:

1. A prominently placed title as follows: STATEMENT OF POLICY COST AND BENEFIT INFORMATION.
2. The name and address of the insurance agent, or, if no agent is involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the Policy Summary.
3. The full name and home office or administrative office address of the company in which the life insurance policy is to be or has been written.
4. The Generic Name of the basic policy and each rider.
5. The following amounts, where applicable, for the first five (5) policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns, including, ~~but not necessarily limited to, the years for which Life Insurance Cost Indexes are displayed and~~ at least one (1) age from sixty (60) through sixty-five (65) ~~or and policy~~ maturity ~~whichever is earlier~~:

- a. The annual premium for the basic policy~~;~~
 - b. The annual premium for each optional rider~~;~~
 - c. ~~Guaranteed~~The amount payable upon death~~;~~ at the beginning of the policy year regardless of the cause of death~~;~~ other than suicide~~;~~ or other specifically enumerated exclusions, which is provided by the basic policy and each optional rider, with benefits provided under the basic policy and each rider shown separately~~;~~
 - d. ~~Total~~The total guaranteed cash surrender values at the end of the year with values shown separately for the basic policy and each rider~~;~~ and
 - e. ~~Cash Dividends payable at the end of the year with values shown separately for the basic policy and each rider. (Dividends need not be displayed beyond the twentieth (20th) policy year.)~~
 - f~~e~~. ~~Guaranteed~~Any endowment amounts payable under the policy ~~which that~~ are not included under guaranteed cash surrender values above.
6. The effective policy loan annual percentage interest rate, if the policy contains this provision~~;~~ specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is ~~variable~~adjustable, the Policy Summary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law; and~~includes the maximum annual percentage rate.~~
 7. ~~Life Insurance Cost Indexes for ten (10) and twenty (20) years but in no case beyond the premium paying period. Separate indexes are displayed for the basic policy and for each optional term life insurance rider. Such indexes need not be included for optional riders which are limited to benefits such as accidental death benefits, disability waiver of premium, preliminary term life insurance coverage of less than twelve (12) months and guaranteed insurability benefits nor for basic policies or optional riders covering more than one life.~~
 8. ~~The Equivalent Level Annual Dividend, in the case of participating policies and participating optional term life insurance riders, under the same circumstances and for the same durations at which Life Insurance Cost Indexes are displayed.~~

9. ~~A Policy Summary which includes dividends shall also include a statement that dividends are based on the company's current dividend scale and are not guaranteed in addition to a statement in close proximity to the Equivalent Level Annual Dividend as follows: An explanation of the intended use of the Equivalent Level Annual Dividend is included in the Life Insurance Buyer's Guide.~~
10. ~~A statement in close proximity to the Life Insurance Cost Indexes as follows: An explanation of the intended use of these indexes is provided in the Life Insurance Buyer's Guide.~~

117. The date on which the Policy Summary is prepared.

~~The Policy Summary must consist of a separate document. All information required to be disclosed must be set out in such a manner as to not minimize or render any portion thereof obscure. Any amounts which remain level for two (2) or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts in item 5 of this section shall be listed in total, not on a per thousand nor per unit basis. If more than one insured is covered under one policy or rider, guaranteed death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as zero and shall not be displayed as a blank space.~~

Section 5 ~~Disclosure requirements~~Duties of Insurers

(A) Requirements Applicable Generally

1. The insurer shall provide, to all prospective purchasers, a Buyer's Guide and ~~a Policy Summary~~ prior to accepting the applicant's initial premium or premium deposit, ~~unless~~ However, if the policy for which application is made contains an unconditional refund provision of at least ten (10) days, ~~or unless the Policy Summary contains such an unconditional refund offer, in which event~~ the Buyer's Guide ~~and Policy Summary~~ must be delivered with the policy or prior to delivery of the policy.
2. The insurer shall provide a policy summary to prospective purchasers where the insurer has identified the policy form as one that will not be marketed with an illustration. The policy summary shall show guarantees only. It shall consist of a separate document with all required information set out in a manner that does not minimize or render any portion of the summary obscure. Any amounts that remain level for two (2) or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts in Section 4(F)5 shall be listed in total, not on a per thousand or per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall

be displayed as a blank space. Delivery of the policy summary shall be consistent with the time for delivery of the Buyer's Guide as specified in Paragraph (1).

~~(B) — The insurer shall provide a Buyer's Guide and a Policy Summary to any prospective purchaser upon request.~~

~~(C) — In the case of policies whose Equivalent Level Death Benefit does not exceed five thousand dollars (\$5,000), the requirement for providing a Policy Summary will be satisfied by delivery of a written statement containing the information described in Section 4(G), items 2, 3, 4, 5a, 5b, 6, 7, 10, 11.~~

(B) Requirements Applicable to Existing Policies.

1. Upon request by the policyowner, the insurer shall furnish either policy data or an in-force illustration as follows:

a. For policies issued prior to the effective date of R.I.G.L. §§ 27-62-1, et seq, the insurer shall furnish policy data, or, at its option, an in-force illustration meeting the requirements of R.I.G.L. §§ 27-62-1, et seq.

b. For policies issued on or after the effective date of R.I.G.L. §§ 27-62-1, et seq, that were declared not to be used with an illustration, the insurer shall furnish policy data, limited to guaranteed values, if it has chosen not to furnish an in-force illustration meeting the above requirements.

c. If the policy was issued on or after the effective date of R.I.G.L. §§ 27-62-1, et seq, and declared to be used with an illustration, an in-force illustration shall be provided.

d. Unless otherwise requested, the policy data shall be provided for twenty (20) consecutive years beginning with the previous policy anniversary. The statement of policy data shall include nonguaranteed elements according to the current scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the current application of nonguaranteed elements in effect at the time of the request. The insurer may charge a reasonable fee for the preparation of the statement.

2. If a life insurance company changes its method of determining scales of nonguaranteed elements on existing policies; it shall, no later than when the first payment is made on the new basis, advise each affected policy owner residing in this state of this change and of its implication on affected policies. This requirement shall not apply to policies for which

the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

3. If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any nonguaranteed factor; it shall, no later than the first policy anniversary following the revision, advise each affected policy owner residing in this state.

Section 6 General Rules

- (A) Each insurer shall maintain at its home office or principal office, a complete file containing one (1) copy of each document authorized and used by the insurer ~~for use~~ pursuant to this regulation. Such file shall contain one (1) copy of each authorized form for a period of three (3) years following the date of its last authorized use unless otherwise provided by this regulation.
- (B) An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which he is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.
- (C) An insurance producer shall not use tTerms such as “financial planner,” “investment advisor,” “financial consultant,” or “financial counseling”-shall not be used in such a way as to imply that the insurance agent is primarily generally engaged in an advisory business in which compensation is unrelated to sales unless such is actually the case. This provision is not intended to preclude persons who hold some form of formal recognized financial planning or consultant designation from using this designation even when they are only selling insurance. This provision also is not intended to preclude persons who are members of a recognized trade or professional association having such terms as part of its name from citing membership, providing that a person citing membership, if authorized only to sell insurance products, shall disclose that fact. This provision does not permit persons to charge an additional fee for services that are customarily associated with the solicitation, negotiation or servicing of policies.
- (D) Any reference to ~~policy dividends~~nonguaranteed elements must include a statement that ~~dividends are~~the item is not guaranteed and is based on the company’s current scale of nonguaranteed elements (use appropriate special term such as “current dividend” or “current rate” scale.) If a nonguaranteed element would be reduced by the existence of a policy loan, a statement to that effect shall be included in any reference to nonguaranteed elements. A presentation or depiction of a policy issued after the effective date of R.I.G.L. §§ 27-62-1, et seq., that includes nonguaranteed elements over a period of years shall be governed by R.I.G.L. §§ 27-62-1, et seq.

- ~~(E) — A system or presentation which does not recognize the time value of money through the use of appropriate interest adjustments shall not be used for comparing the cost of two or more life insurance policies. Such a system may be used for the purpose of demonstrating the cash-flow pattern of a policy if such presentation is accompanied by a statement disclosing that the presentation does not recognize that, because of interest, a dollar in the future has less value than a dollar today.~~
- ~~(F) — A presentation of benefits shall not display guaranteed and nonguaranteed benefits as a single sum unless they are shown separately in close proximity thereto.~~
- ~~(G) — A statement regarding the use of the Life Insurance Cost Indexes shall include an explanation to the effect that the indexes are useful only for the comparison of the relative costs of two (2) or more similar policies.~~
- ~~(H) — A Life Insurance Cost Index which reflects dividends or an Equivalent Level Annual Dividend shall be accompanied by a statement that is based on the company's current dividend scale and is not guaranteed.~~
- ~~(I) — For the purposes of this Regulation, the annual premium for a basic policy or rider, for which the company reserves the right to change the premium, shall be the maximum annual premium.~~

Section 7 Failure to Comply

Failure of an insurer to provide or deliver a Buyer's Guide, an in-force illustration, ~~or~~ a Policy Summary or policy data as provided in Section 5 shall constitute an omission which misrepresents the benefits, advantages, conditions or terms of an insurance policy.

Section 8 Effective Date

This Regulation shall apply to all solicitations of life ~~insurance which~~ insurance that commence on or after ~~January 1, 1979~~ October 1, 2006.

EFFECTIVE DATE:	January 1, 1979
AMENDED:	October 7, 1997
REFILED:	December 19, 2001
AMENDED:	December __, 2005

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APPENDIX

LIFE INSURANCE BUYER'S GUIDE

The language in the Buyer's Guide is limited to that contained in this Appendix, or to language approved by the Director of Business Regulation. Companies may purchase personalized brochures from the NAIC or may reproduce the Buyer's Guide in their own type style (at least 10 point) and format.

The Buyer's Guide shall read as follows:

LIFE INSURANCE BUYER'S GUIDE

This guide can help you when you shop for life insurance. It discusses how to:

- Find a policy that meets your needs and fits your budget
- Decide how much insurance you need
- Make informed decisions when you buy a policy

Prepared by the National Association of Insurance Commissioners

The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various Insurance Departments to coordinate insurance laws for the benefit of all consumers.

This guide does not endorse any company or policy.

(optional) Reprinted by [Name of insurer or other person]

IMPORTANT THINGS TO CONSIDER

1. Review your own insurance needs and circumstances. Choose the kind of policy that has benefits that most closely fit your needs. Ask an agent or company to help you.
2. Be sure that you can handle premium payments. Can you afford the initial premium? If the premium increases later and you still need insurance, can you still afford it?
3. Don't sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.

4. Don't buy life insurance unless you intend to stick with your plan. It may be very costly if you quit during the early years of the policy.
5. Don't drop one policy and buy another without a thorough study of the new policy and the one you have now. Replacing your insurance **may be costly**.
6. Read your policy carefully. Ask your agent or company about anything that is not clear to you.
7. Review your life insurance program with your agent or company every few years to keep up with changes in your income and your needs.

Buying Life Insurance

When you buy life insurance, you want coverage that fits your needs.

First, decide how much you need – and for how long – and what you can afford to pay. Keep in mind the major reason you buy life insurance is to cover the financial effects of unexpected or untimely death. Life insurance can also be one of many ways you plan for the future.

Next, learn what kinds of policies will meet your needs and pick the one that best suits you.

Then, choose the combination of policy premium and benefits that emphasizes protection in case of early death, or benefits in case of long life, or a combination of both.

It makes good sense to ask a life insurance agent or company to help you. An agent can help you review your insurance needs and give you information about the available policies. If one kind of policy doesn't seem to fit your needs, ask about others.

This guide provides only basic information. You can get more facts from a life insurance agent or company or from your public library.

What About the Policy You Have Now?

If you are thinking about dropping a life insurance policy, here are some things you should consider:

- If you decide to replace your policy, don't cancel your old policy until you have received the new one. You then have a minimum period to review your new policy and decide if it is what you wanted.

- It may be costly to replace a policy. Much of what you paid in the early years of the policy you have now, paid for the company's cost of selling and issuing the policy. You may pay this type of cost again if you buy a new policy.
- Ask your tax advisor if dropping your policy could affect your income taxes.
- If you are older or your health has changed, premiums for the new policy will often be higher. You will not be able to buy a new policy if you are not insurable.
- You may have valuable rights and benefits in the policy you now have that are not in the new one.
- If the policy you have now no longer meets your needs, you may not have to replace it. You might be able to change your policy or add to it to get the coverage or benefits you now want.
- At least in the beginning, a policy may pay no benefits for some causes of death covered in the policy you have now.

In all cases, if you are thinking of buying a new policy, check with the agent or company that issued you the one you have now. When you bought your old policy, you may have seen an illustration of the benefits of your policy. Before replacing your policy, ask your agent or company for an updated illustration. Check to see how the policy has performed and what you might expect in the future, based on the amounts the company is paying now.

How Much Do You Need?

Here are some questions to ask yourself:

- How much of the family income do I provide? If I were to die early, how would my survivors, especially my children, get by? Does anyone else depend on me financially, such as a parent, grandparent, brother or sister?
- Do I have children for whom I'd like to set aside money to finish their education in the event of my death?
- How will my family pay final expenses and repay debts after my death?
- Do I have family members or organizations to whom I would like to leave money?
- Will there be estate taxes to pay after my death?
- How will inflation affect future needs?

As you figure out what you have to meet these needs, count the life insurance you have now, including any group insurance where you work or veteran's insurance. Don't forget Social Security and pension plan survivor's benefits. Add other assets you have: savings, investments, real estate and personal property. Which assets would your family sell or cash in to pay expenses after your death?

What Is the Right Kind of Life Insurance?

All policies are not the same. Some give coverage for your lifetime and others cover you for a specific number of years. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

There are two basic types of life insurance: **term insurance** and **cash value insurance**. Term insurance generally has lower premiums in the early years, but does not build up cash values that you can use in the future. You may combine cash value life insurance with term insurance for the period of your greatest need for life insurance to replace income.

Term Insurance covers you for a term of one or more years. It pays a death benefit only if you die in that term. Term insurance generally offers the largest insurance protection for your premium dollar. It generally does not build up cash value.

You can renew most term insurance policies for one or more terms even if your health has changed. Each time you renew the policy for a new term, premiums may be higher. Ask what the premiums will be if you continue to renew the policy. Also ask if you will lose the right to renew the policy at some age. For a higher premium, some companies will give you the right to keep the policy in force for a guaranteed period at the same price each year. At the end of that time you may need to pass a physical examination to continue coverage, and premiums may increase.

You may be able —to trade many term insurance policies for a cash value policy during a conversion period – even if you are not in good health. Premiums for the new policy will be higher than you have been paying for the term insurance.

Cash Value Life Insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value. You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the

cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy. Cash value life insurance may be one of several types; whole life, universal life and variable life are all types of cash value insurance.

Whole Life Insurance covers you for as long as you live if your premiums are paid. You generally pay the same amount in premiums for as long as you live. When you first take out the policy, premiums can be several times higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years or until age 65. Premiums for these policies are higher since the premium payments are made during a shorter period.

Universal Life Insurance is a kind of flexible policy that lets you vary your premium payments. You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the new death benefit. The premiums you pay (less expense charges) go into a policy account that earns interest. Charges are deducted from the account. If your yearly premium payment plus the interest your account earns is less than the charges, your account value will become lower. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value.

Variable Life Insurance is a kind of insurance where the death benefits and cash values depend on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus from the company when buying this kind of policy and **STUDY IT CAREFULLY**. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit.

Life Insurance Illustrations

You may be thinking of buying a policy where cash values, death benefits, dividends or premiums may vary based on events or situations the company does not guarantee (such as interest rates). If so, you may get an illustration from the agency or company that helps explain how the policy works. The illustration will show how the benefits that are not guaranteed will change as interest rates and other factors change. The illustration will show you what the company guarantees. It will also show you what *could* happen in the future. Remember that nobody knows what will happen in the future. You should be ready to adjust your financial plans if the cash value doesn't increase as quickly as shown

in the illustration. You will be asked to sign a statement that says you understand that some of the numbers in the illustrations are not guaranteed.

Finding a Good Value in Life Insurance

After you have decided which kind of life insurance is best for you, compare similar policies from different companies to find which one is likely to give you the best value for your money. A simple comparison of the premiums is not enough. There are other things to consider. For example:

- Do premiums or benefits vary from year to year?
- How much do the benefits build up in the policy?
- What part of the premiums or benefits is not guaranteed?
- What is the effect of interest on money paid and received at different times on the policy?

~~Once you have decided which type of policy to buy, you can use a cost comparison index to help you compare similar policies. Life insurance agents or companies can give you information about several different kinds of indexes that each work a little differently. One type helps you compare the costs between two policies if you give up your policy and take out the cash value. Another helps you compare your costs if you don't give up your policy before its coverage ends. Some help you decide what kind of questions to ask the agent about the numbers used in an illustration. Each index is useful in some ways, but they all have shortcomings. Ask your agent which will be most helpful to you. Regardless of which index you use, compare index numbers only for similar policies—those that offer basically the same benefits, with premiums payable for the same length of time.~~

Remember that no one company offers the lowest cost at **all** ages for **all** kinds and amounts of insurance. You should also consider other factors:

- How quickly does the cash value grow? Some policies have low cash values in the early years that build up quickly later on. Other policies have a more level cash value build-up. A year-by-year display of values and benefits can be very helpful. (The agent or company will give you a policy summary or an illustration that will show benefits and premiums for selected years.)
- Are there special policy features that particularly suit your needs?
- How are nonguaranteed values calculated? For example, interest rates are important in determining policy returns. In some companies increases reflect the average interest earnings on all of that company's policies regardless of when issued. In others, the return for policies issued in a recent year, or a

group of years, reflects the interest earnings on that group of policies; in this case, amounts paid are likely to change more rapidly when interest rates change.